

<b>Diesel Taxes</b>	<ul style="list-style-type: none"> <li>• Although the gas tax was increased to 19-cents per gallon in 1997, the diesel fuel taxes were not. They remain at 15-cents per gallon.</li> <li>• 4-cent increase would generate approximately \$40.0 million per year for transportation.</li> <li>• Increase is about \$10 million per penny.</li> </ul>
<b>Diesel Taxes</b>	<ul style="list-style-type: none"> <li>• Attempts to increase diesel fuel taxes have not been successful.</li> <li>• In 2000 an attempt to simplify diesel tax system was defeated.</li> <li>• In 2002 diesel tax simplification was enacted – after a proposed 4-cent increase was stripped from the bill.</li> <li>• It is not clear if simplification will result in additional transportation revenue.</li> <li>• In 2000 we were not able to get this bill enacted even with a republican house and senate.</li> </ul>
<b>Diesel Taxes</b>	<ul style="list-style-type: none"> <li>• Proposed 4-cent increase in 2003 not taken up in committee.</li> <li>• Governor Granholm has proposed this increase, however, it has not been taken up in committee yet and there has been no action whatsoever.</li> </ul>
<b>MTF Grant to Secretary of State</b>	<ul style="list-style-type: none"> <li>• Reduced in FY 1998 (from \$86.2 million to \$43.8 million)</li> <li>• Increased in FY 2002 to \$95.8 million</li> <li>• This increase would dedicate motor fuel taxes and vehicle registration fees to transportation less administrative fees.</li> <li>• Frees up over \$40 million to transportation.</li> <li>• Losing \$40-50 million to pay Michigan Secretary of State's office.</li> <li>• Similar issue to Treasury – smaller amount – not quite enough public attention.</li> </ul>
<b>MTF Grant to Secretary of State</b>	<ul style="list-style-type: none"> <li>• Grant reduced in FY 2004 budget to \$20.0 million (from \$94.5 million in FY 2003)</li> <li>• Reduction in grant due to three bills: SB 554 which increases/redirects vehicle registration fees, SB 539 which amends Act 51, and SB 265 the FY 2004 appropriations bill</li> <li>• Net increase in available MTF is only \$20.0 million (ongoing)</li> <li>• These three bills affected this bill to the Secretary of State in 2000.</li> <li>• Did not increase money to transportation due to reduction in grant to these three bills.</li> </ul>

**MTF Grant to Secretary of State**

- **SB 539 amends Act 51 to limit MTF grant to \$20.0 million**
  - **Can this hold in face of GF budget problems?**
  - Statutory limits on grants.
- 

**Trailer Fee Increase SB 554**

- **Estimated one-time increase in MTF of \$108.0 million for FY 2004**
  - **CTF cut-out of 10% distribution by SB 539**
  - **\$15 million MTF reduction in subsequent years**
  - **Revenue estimates – large margin of error**
  - This bill increased a number of registration fees.
  - Numbers of assumptions built into increase.
- 

**Airport Parking Tax**

- **PA 680 of 2002 (HB 4454)**  
**Redirects \$6.0 million from Wayne County to State Aeronautics Fund to fund aeronautics bond program**
  - **Loss of General Fund revenue for aeronautics**
  - This is not a tax increase.
  - There have been attempts to provide additional funding to the State aeronautics fund.
  - Not a tax increase but a tax shift.
  - There is a publication that discusses transportation funding; you can access this publication through the website: [michiganlegislature.org](http://michiganlegislature.org)
- 

**Q&A from Craig and Bill's presentations.**

- Q CTF cut out by billions; same as \$10 million that was diverted?  
A I believe this is the same tax shift.

- Q Legislature created a one time increase on trailer license for 2004 that eliminated \$50 million annually, what was the logic?  
A It is to be a benefit to trailer owners as they wouldn't have to register every year. It would also provide lower transaction costs. The legislature was looking for revenue in transportation for this fiscal year and this was one area that yielded the amount of revenue they were looking for. It would also prevent owners with multiple trailers from switching the license plate between their various trailers. Each trailer has to have its own plate. The Secretary of State is not reissuing plates at this time.

- Q I'm curious on last slide regarding the \$6 million from the airport parking tax, what's the total amount?  
A Two years ago this generated around \$24 million. In the ballpark area between \$18-20. You can refer to House Bill 4454.

- Q Can you comment on why it seems to be impossible for the diesel tax to be increased?

*Continued on Next Page*

- A In 2002 at the time Governor Engler proposed the tax increase, a number of legislators had signed a no tax increase document. Also there was some dispute over distribution of transportation revenue.
- Q The Federal Highway bill that's pending, I'm not sure of what funding level; if the federal level goes higher, has the state legislature decided if they will match the higher funding level? State has to match federal level; has this been taken into consideration?
- A The simple answer is no. I have not seen anything on the proposed gap that might exist. Act 51 provides a number of requirements for matching. It would not necessarily be just a state match, some are local matches. It gets a little complex and it might be premature at this time, will look at when these federal dollars when they come are way.
- Q Can you talk about the auto sales tax and how it's distributed? For example used car sales, you pay sales tax when you purchase the car new, and then upon resale of the vehicle another sales tax is paid; what type of fund does this go to?
- A When buying a new car you pay sales tax, however, when selling a used car the tax upon resale is considered a "use tax." A portion of sales tax is earmarked for transportation, but use tax does not have any money earmarked for transportation.
-

## **A Future Perspective**

Expert Speaker: **Don Bullock, Executive Coordination Unit Manager  
Federal Highways Administration**

---

- |                                     |  |
|-------------------------------------|--|
| <b>Financing<br/>Transportation</b> | <ul style="list-style-type: none"><li>• Worked with Jim Steele on this.</li><li>• All in agreement at each level that there is not enough money.</li></ul> |
|-------------------------------------|--|
- 

- |                                     |  |
|-------------------------------------|--|
| <b>Financing<br/>Transportation</b> | <ul style="list-style-type: none"><li>• <b>Historical Perspective</b></li><li>• <b>Developing Issues</b></li><li>• <b>Traditional/Current Approaches</b></li><li>• <b>Future approaches</b></li><li>• From a historical perspective we will look at how it's evolved.</li><li>• Developing issues in several different perspectives.</li></ul> |
|-------------------------------------|--|
- 

- |                                 |   |
|---------------------------------|---|
| <b>Historic<br/>Perspective</b> | <ul style="list-style-type: none"><li>• <b>In the early days of US highways toll roads where the norm</b><ul style="list-style-type: none"><li>– <b>National Road</b></li><li>– <b>Many key bridges built by entrepreneurs</b></li></ul></li><li>• In 18th century all roads were privately owned.</li><li>• Funding was by direct tolls.</li></ul> |
|---------------------------------|---|
- 

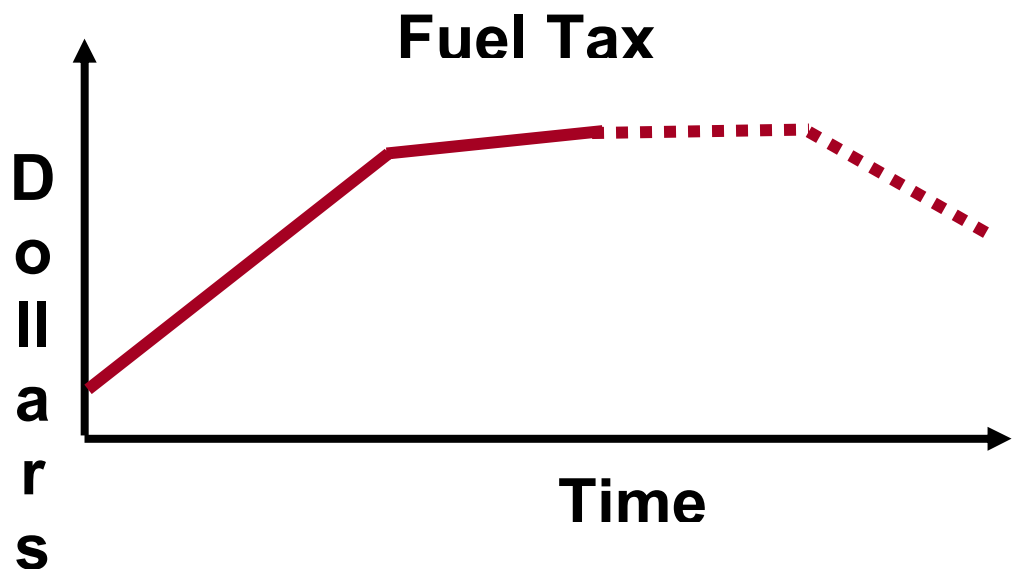
- |                                 |   |
|---------------------------------|---|
| <b>Historic<br/>Perspective</b> | <ul style="list-style-type: none"><li>• <b>Infrastructure provided by the government</b></li><li>• <b>Free roads supported by user fees</b></li><li>• <b>Then came the idea of “pay-as-you-go”</b></li><li>• <b>First fuel tax in Oregon 1919 @ 1 cent</b></li><li>• <b>The 1956 Interstate System construction program</b></li><li>• When the Interstate was started was basically “pay-as-you-go”</li><li>• Infrastructure changed over to government.</li><li>• By 1956 the magnitude increased.</li></ul> |
|---------------------------------|---|
- 

- |  |  |
|--|--|
| <b>Traditional/Current<br/>Approaches<br/>to Fund Large<br/>Projects</b> | <ul style="list-style-type: none"><li>• <b>Tolls</b></li><li>• <b>Bonds</b><ul style="list-style-type: none"><li>– <b>TIFIA</b></li><li>– <b>GARVEE</b></li></ul></li><li>• <b>Stage projects over long period of time</b></li><li>• <b>Will the current approaches work in the future?</b></li><li>• Floating bonds to finance extremely large projects.</li><li>• Will it work in the future – probably not.</li></ul> |
|--|--|
-

## Developing Issues

- **Revenue issues:**
    - Gas tax revenue has fallen due to more fuel efficient vehicles
    - Alternate fuels
      - Ethanol
      - Hydrogen powered vehicles
      - Electric powered vehicles
  - **Costs issues:**
    - escalating beyond funding ability
  - Tax incentive to encourage production and use.
  - I-94 Detroit – 7 miles of road @ \$1 billion.
  - Revenue continues to fall due to alternate fuels, how do you tax an electrical car?
  - The cost of replacing 7 miles of road would use the entire apportionment for 1 year.
- 

## The Future - Revenue



- Fuel efficient cars have flattened it considerably
  - Ultimate fuel issue – how do we tax this?
- 

## A Look Ahead

- **What does the future hold?**
- **Where do we go from here?**
- **We need to find new ways to:**
  - Raise revenue
  - Finance major projects
- **There will be risks**
- **It will not be what we are doing today**
- **We have less money to do what we need to do.**

*Continued on Next Page*

- Think out of the box – use different methodology.
- 

**The Future -  
Revenue**

- **Fuel taxes will be a declining revenue source**
  - **What will replace the current system for revenue collection?**
    - **Increase vehicle fees**
    - **Increase weight fees**
    - **Mileage fees**
    - **Value added tax on cargo**
    - **Other**
  - Build mileage fees in.
- 

**Revenue –  
Traditional  
Approach**

- **User Pays**
  - **User fee = user benefit**
    - **Vehicle Operator**
    - **Fuel Tax**
    - **Efficiency**
  - User = vehicle operator
- 

**Revenue –  
Future  
Approach**

- **Still User Pays**
  - **User fee = user benefit**
    - **Anyone with benefits**
    - **Economic vitality**
    - **Sales Tax**
    - **Value added cargo tax**
    - **Mileage tax**
    - **Fuel tax**
    - **Efficiency**
    - **Quality of life**
  - Redefine who the user is.
  - Anyone who receives the benefit in any form.
  - User fee will still be in the form of a user tax – possible other taxes are listed above.
- 

**Future  
Approach -  
Revenue**

- **Even if we can find new revenue sources >> needs will likely exceed dollars available**
  - How to leverage the revenue we capture
-

**Innovative  
Techniques  
“A Whole Life  
Approach”**

- **Concessionaires**
  - **DBFO**
  - **Shadow Tolls**
  - **Active Management Payment Mechanism**
  - Some of the ways that European’s use concessionaires.
  - Concessionaires design, build, and maintain the roads over the entire life of the system.
- 

**Innovative  
Techniques  
“A Whole Life  
Approach”**

- **Concessionaires**
    - **Public Private Partnership**
    - **Long term relationship**
    - **Private sector finances, constructs, operates, and maintains project**
    - **Initial virtual transfer of ownership to private**
    - **Public sector makes annual payments**
  - Concessionaires assume virtual ownership.
- 

**Innovative  
Techniques  
“A Whole Life  
Approach”**

- **Concessionaires**
  - **Payment options**
    - **Private sector collects tolls**
    - **Public sector pays shadow toll**
      - **Usage/Demand**
      - **Performance**
  - Tried and true – collect tolls.
  - Newer way is shadow toll based on usage/demand.
  - Evolved – different restrictions in contract to ensure performance.
- 

**Shadow Tolls -  
Usage**

- **Agency pays**
  - **Not direct charge to user**
  - **Per vehicle / per mile**
  - **Indexed by**
    - **volume**
    - **vehicle type**
    - **time**
  - Problem – if contract wasn’t written right – 25 years later nothing back on maintaining.
-

**Shadow Tolls -  
Performance**

- **Adjust usage payment or stand alone based on:**
    - **Congestion Management**
    - **Safety Management**
    - **Service Management**
  - On Congestion Management:
    - Reduce congestion
    - Improve reliability
  - On Safety Management:
    - Accident rate.
    - Payment is reduced if standards not met.
    - Usage basis may not encourage efficiency, safety, ride ability
    - Should public agency pay even if system is in poor condition?
    - Not met.
  - Payment management usage.
  - Congestion management – built into contract – must maintain certain speed in lanes – then shadow toll was reduced
  - Safety management – accident statistics before the concession – pay for accidents avoided
  - Service management facility had to be turned back at certain level of condition or docked at the end of the contract.
- 

**Concessionaires  
and Shadow  
Tolls  
Benefits for  
Major Projects**

- **Shared risk**
  - **Public sector does not need full funding at start**
  - **Needed infrastructure can be built sooner**
  - **Public sector payments spread over time**
  - **Public sector not responsible for securing funding**
  - **Over long haul, public outlay is still substantial**
  - Properly managed can start sooner.
  - Concessionaire secures the financing.
  - Not do this for free in the private sector – shell out more money over the life of the project.
- 

**Concessionaires  
and Shadow  
Tolls  
Long Term  
Outlay**

- **When we debate how much can we invest we often limit our thinking to how much it will cost**
  - **Maybe we should focus more on what it will cost the economy if we don't build / improve the infrastructure**
- 

**Where do we go  
from here?**

- **Identify trends – be prepared to act**
- **Look for new / replacement revenue sources**
- **Expand user fee / user benefit paradigm**
- **Investigate and use new funding approaches**

*Continued on Next Page*



- We are obviously already working on it.
  - Change definition of user.
- 

**Where do we go from here?**

- **“If we continue to do what we have always done, we will continue to get what we have always got.”**
  - What we always got may not get us where we want to go.
- 

**Q&A**

Q Earlier session brought up tolls; what about labor contracts with concessionaires and shadow tolls in terms of 25-30 year agreements on maintenance, is that an issue in your experience across the globes?

A Can't address about labor issues. Jim is the one who went to Europe and saw all of this first hand.

Q Does the concessionaire design the road?

A Whatever is in the contract, the concessionaire usually does the whole spiel.

Q I keep looking at Europe and how much more it costs, for example the 407 Project in Toronto where they found out they could borrow money a lot cheaper. Where does that scheme depart from bonding over a major project for a long period of time?

A Can't answer what it would cost. It does cost considerably more over the long range. Negotiations were made so it depends on what was in the negotiation. Bonding vs. debt; we are still not getting around that up front thing. Can't answer very well.

Q Program gives a lot more control to the private sector vs. the public sector; my concern is how would it affect things like complex sensitive design, local input along the corridor and also things like high quality design rather than design that would make the most money for the private sector?

A In this research report they talked about that and one thing is the environmental. It implied that it's in there and that government does not give up environmental rights.

Q Concern that I have is that we focused predominantly on increasing revenue instead of decreasing cost; are any of these being thought about in FHWA?

A Looking at total picture and we realize that we can't do this anymore. We may have to use a shotgun approach to demand reduction and use tolls during peak hours. We don't want to focus on just one issue, we need to plan ahead. This presentation is like looking into a crystal ball it is one tool, however, it's not the only tool.

## General Revenue Enhancement Sources

Expert Speaker: **Eric Lupher, Senior Research Associate**  
**Citizens Research Council of Michigan**

---

### **Bringing Michigan Highway and Governance into the 21<sup>st</sup> Century**

---

#### **Citizens Research Council of Michigan**

- **Efficiency**
  - **Effectiveness**
  - **Accountability**
  - The Citizens Research Council of Michigan is a non-profit organization engaged in the study of state and local government in Michigan.
  - A non-partisan organization whose only agenda is to promote good government.
  - Government that is efficient, effective and accountable.
  - Explain the Michigan highway system, as it currently assigns responsibilities and raises money for the care of highways.
  - It is not very efficient or effective and does not create a sense of accountability.
- 

#### **The pain of raising revenue should accompany the pleasure of spending it. - John Shannon, U.S. ACIR**

- This is an adage we live by in governmental research.
  - Accountability is strengthened and as a result, efficiency and effectiveness are enhanced.
  - The basic argument is that it's easy to spend other people's money, but tend to be more prudent with own money.
  - Spending other people's money is generally a problem with government, but it becomes more of a problem when the governmental unit spending it didn't even have to go to the tax payers to get it.
- 

#### **“It's not our fault”**

- County road commissions and municipalities say that the reasons are roads are in poor condition is that the state doesn't give them enough money.
- MDOT is likely to say they only have a small percentage of the roads and the local's are not doing a good enough job.
- Some complain that there are not enough transit services in Michigan.
- The transit agencies say that the state isn't funding transit at 10% of the Michigan Transit Fund.
- They say car leasing is taking away from sales tax revenues.

*Continued on Next Page*

- Washington doesn't return our fair share federal funds.
  - The legislature has only raised gas tax once in the past 20 years.
  - Everyone has someone else to blame for Michigan's highway woes.
  - The system is set up to pass the blame and muddle through.
- 

## **Michigan Highway System**

- **Local units responsible for road care**
  - **Local governments spend money on highways**
  - **State responsible for revenue raising**
  - **High level of revenue sharing**
  - The pain of raising revenue does not accompany the pleasure of spending is obvious in Michigan.
  - More than  $\frac{3}{4}$  of all taxes collected by the state are ultimately spent by others.
  - Local governments get state funding for schools, revenue sharing, courts, health, mass transit, and highways.
  - Michigan is unusual in that it vests responsibility for a large share of the overall highway system with local government.
  - Michigan local governments account for about 58% of all state and local highway expenditures.
  - Local governments in the average state are responsible for about 35%.
  - Money to pay for maintenance of these roads is raised by the state.
  - Michigan local governments rely on state funding to maintain spending to a much greater extent than other local governments in other states, where local tax sources supplement state revenues.
  - According to the Federal Highway Administration, the average state government contributes 23% of the local government revenues for highway construction and maintenance, compared to 58% in Michigan.
- 

## **McNitt and Horton Acts of 1931**

- **McNitt Act – shifted jurisdiction of township roads to county road commissions**
- **Horton Act – shifted state funding to local agencies**
- Why is Michigan different from other states?
- It goes back to 1931, when the McNitt and Horton Acts were passed.
- The Great Depression was devastating local governments and construction bonds were in danger of default.
- The reforms enacted took townships out of the road business and shifted funding responsibility to the state.
- That was the last time a systematic review took place dealing with the proper assignment of jurisdiction control of roads and responsibility of funding these roads.
- The system has changed incrementally.
- System in 2003 is still based on the system the resulted from the Great Depression 70 years ago.

---

**Review of  
Jurisdictional  
Control**

- **Continuing review is axiomatic to the highway classification process and is fundamental to its theory. To ignore review is to assume that conditions which directly influence highway classifications remain static. The process of review and updating should encompass not only physical changes in the criteria used to evaluate the jurisdictional status of our road network but also the methods employed in such classification.**

**- Michigan Department of State Highways, 1967**

- Highway organization can be considered the weakest link in Michigan's highway system.
- A lot has changed in 70 years.
- We change the ways in which we live, work, shop, bring supplies to manufacturers, and goods to market.
- We have inefficiencies, problems with accountability, confused taxpayers, and funding problems because the highway system is based on a 1930's model.

---

**1930s vs. 2000s**

- **Population growth**
  - **Urban sprawl**
  - **New cities incorporated/charter townships**
  - **Urban counties**
  - **Railroads replaced by interstates**
  - **The daily commute**
  - We have added about 5 million people since 1930's, when agriculture still drove the state economy.
  - We now have over 70% of the people living in urban areas in the state.
  - Much of growth is through urban sprawl.
  - In the 1930's about 1,500 square miles was part of a city or village, now it's over 6,000 square miles.
  - We also created charter townships, which have no highway responsibilities.
  - 1930's most urban counties still had large rural areas.
  - Now, county road agencies in Wayne, Oakland, Macomb, Kent, Ingham, etc. primarily care for roads that lie within cities and villages.
  - The interstate now is responsible for many things the railroads used to do in the past.
  - We've developed new commuting patterns.
  - 2000 Census found that 29% of Michigan workers have jobs in counties different from their residence. This percentage is even higher in urban counties of the state.
-

**Only  
Incremental  
Changes**

- **Since 1973**
    - **~100 miles of roads transferred from county road commission or municipalities to MDOT**
    - **~200 miles of roads “turned back” from MDOT to local road agencies**
  - Even though state, counties, and municipalities have added to their road system, little has changed in highway funding and governance to reflect the changing ways in which we live.
  - Since 1973, less than 0.1% of roads under local jurisdiction have been though suitable for transfer to the state.
  - Only about 2% of state roads have been “turned back” to local road agencies.
- 

**Begin with  
Jurisdictional  
Control**

- **Create criteria**
  - **i.e., mobility v accessibility, character of traffic**
  - **Apply criteria in a rational, consistent manner with stable maintenance over time**
  - **Understandable to all**
- **One Approach**
  - **State > interstates, roads of highest significance**
  - **Counties > regional roads**
  - **Cities, Villages, Townships > local access roads**
- How do we fix the system?
- Begin by addressing jurisdictional control; those entrusted to care for the Michigan highway system will continue to be frustrated in their efforts to gain more funding.
  - Begin by creating criteria.
  - Road experts such as you can do this more effectively.
  - Break the mold on the old system; start from scratch.
  - Should MDOT be responsible for more roads and bridges or fewer?
  - Should county road commissions continue to be responsible for local access roads in townships?
  - Do we need county road commissions in urban counties?
  - Should neighboring county road commissions be consolidated?
  - Should we take cities out of the business of caring for major roads?
  - Does it make sense for the character of a road to change at a municipal boundary?
    - Created an example of a reorganization to illustrate my point.
    - This reorganization would have MDOT gain a few roads or stay the same.
    - County road commissions would gain arterials and collector roads currently controlled by municipalities, but would no longer care for local access roads.

*Continued on Next Page*

- Cities, villages and townships, yes I would put townships back in the road care business – would be responsible for solely local access roads.
  - There's nothing magical about this plan.
  - Others might come up with a different design.
- 

#### **Reorganization of Jurisdictional Control**

- **Benefits to governmental agencies**
    - **Promote economic development**
    - **More effective land use planning**
    - **Concentrate efforts**
  - **Benefits**
    - **Understandable to everyone**
    - **Increase accountability**
    - **Create meaningful allocation of resources**
    - **Create economies and efficiencies**
  - Create a system that reflects the 21<sup>st</sup> century, rather than the 20<sup>th</sup> century.
  - Benefits to government will be seen in many ways.
  - Regional bodies controlling roads.
  - Local governments will have new weapons in their efforts to address economic development needs, create effective land use planning, and combat urban sprawl.
  - Also, this approach will allow governmental units to concentrate their efforts on the road types for which they are responsible, improving the economics of their efforts.
  - Taxpayers have proven reluctant to support things they don't understand.
  - By making highway system's organization more understandable, you will increase accountability, more effectively get funding to where it is needed, and create more economies and efficiencies in care of the roads.
- 

#### **Prioritization**

- **Assess condition of roads and bridges**
- **Prioritize needs**
- **Public documents**
  - **Describing road and bridge conditions**
  - **Describing approach to addressing needs**
- **Make case to taxpayers**
- Reassignment of jurisdictional control, each level of government will be responsible to assess the quality of roads and bridges now under their control, prioritize needs, and develop a request for funding.
- Make the system as transparent as possible.
- If you eliminate dependence on state funding to care for all levels of government, the results of a needs assessment would not be used to

*Continued on Next Page*

create a wish list, but instead would be used to appeal to taxpayers for their support on ballot questions.

---

#### **Gas Tax Rates**

- **Graph of gas tax rates:**
  - **Michigan at 19 cents per gallon**
  - **Average U.S. State at 18 cents per gallon**
  - **Great Lakes States Average at 21 cents per gallon**
  - The challenge for policymakers is to provide sufficient funds to meet highway needs.
  - At 19 cents per gallon Michigan is a little above the national average and just below the average for the Great Lakes states.
  - Michigan's vehicle registration fees, likewise, are in line with what is levied in other states.
  - The problem is that state taxes are expected to carry the load not only to meet state needs, also the primary funding source for county road commissions and municipalities.
- 

#### **Local Government Own-Source Funding for Transportation**

- **Property Tax**
  - **Cap on assessments**
  - **Headlee rollbacks**
  - **Property tax burden above average**
- **Income Tax**
  - **Available only to cities**
- Most local governments in Michigan use the property tax to supplement state and federal highway funds.
- Some levy property taxes dedicated to road or transit funding, but these taxes are intended only to raise the marginal dollars that allow these road agencies to do more than they could exclusively with state MTF funding.
- The property tax structure in Michigan is going to come under increased pressure.
- Property taxes are limited in how much they can grow.
- Demand for such things as homeland security takes center stage and health care costs grow faster than inflation, property tax revenue growth has generally slowed to the rate of inflation.
- This situation is creating difficult financial times for local governments.
- Local units have to make hard decisions about what things they can afford to fund with property taxes.
- Cities have cut back on library funding and recreation services.
- Ability to shift funding to another source makes the decisions of local officials easier.

*Continued on Next Page*

- With state and federal funds available for road care, local units might soon opt to concentrate the use of property tax dollars on other functions for which alternate funding is not available.
  - Such decisions will only increase local government dependence on state funding.
- 

## **Reliance on State Highway Funds**

- **Graph of Michigan and U.S. Average**
  - **Michigan's average is about 64%**
  - **U.S. Average is about 27%**
  - Transportation funding is among the leading services in which local governments rely on state-shared revenues to fund local services.
  - Because of lack of jurisdiction control, we have a formula to distribute funding that is understandable to few, an inability to direct funding to any specific classification of road, and funding that provides state dollars for local-access roads.
  - In Washington, policymakers are rethinking the role of the federal highway trust fund.
  - The highway system is built, for the most part, and we have to ask what role these dollars should serve.
  - The same examination should take place with state funding.
  - It's time to expect regions and local units to raise funds sufficient to care for their own roads.
- 

## **Transit Funding**

- **State reimbursement of local spending**
    - **40-50% based on amount available for distribution**
    - **Lack of transit blamed on insufficient state funding**
  - **What service is more local in nature than transit?**
  - Transit is also reliant on state-shared funding.
  - Some cases for as much as half their revenues.
  - Transit agencies like to plead poverty, but if you view the big picture you might ask why the state is funding transit at all.
  - Transit is very much a service that is local or regional in nature.
  - While the state cares about economic development and quality of life in its metropolitan areas, why should residents of Marquette be expected to pay higher taxes to support transit in Southeast Michigan or Grand Rapids.
-



- Local-option Tax**
- **Local-option county registration fees**
    - 0 for 6 in attempts for enactment
  - **Reasons**
    - Levied on county level
    - Commuting public
    - “Hit and miss” use of revenues
  - Suggest that it is time for policymakers to develop regional taxes to fund roads that serve regional purposes.
  - Counties have attempted registration fees in the past.
  - 1987 to 1992 counties were authorized to level local-option registration fees with voter approval.
  - Six counties tried and they all failed to get voter support.
  - Think like taxpayers to hypothesize why these taxes failed:
    - First, the taxes would have been levied on a county level
    - People asked why they should pay more when 2, 4, 6 miles away in another county would be unaffected.
    - Sometimes people forget government boundaries are just dotted lines on a map.
    - Second, 29% of the workers in Michigan reside in a county different than where they work.
    - That doesn’t count shoppers, entertainment, or visitors.
    - In a state that relies on tourism and people traveling “Up North”, residents don’t want to pay for something that will benefit others.
    - People associate with the county they live in, they’re also aware that many others use county roads.
    - Finally, it wasn’t clear what roads would be fixed.
    - First you had to decipher which roads are county, state, or municipal roads.
    - Then figure out which are judged a priority by the road commissions.
    - This is too much to ask of the average taxpayer.
- 

- Regional Taxes**
- **Picture of state map show various regions.**
  - Regional taxes, rather than county taxes, would address many of the flaws with the attempts at county registration fees.
  - Michigan could be broken into regions that correspond with the MDOT regions.
- 

- Regional Taxes**
- **Another picture of state map showing various regions.**
  - Or be broken up into regions that correspond with the metropolitan planning organizations used for federal highway planning and other roles such as environmental issues, and cooperation among members.
-

**Local-Option  
Taxes – Motor  
Fuel**

- **Alabama**
  - **California**
  - **Florida**
  - **Hawaii**
  - **Illinois**
  - **Mississippi**
  - **Montana**
  - **Nevada**
  - **New Mexico**
  - **Oregon**
  - **South Dakota**
  - **Tennessee**
  - **Virginia**
  - **Washington**
  - Other states have made alternate funding sources available for local road needs.
  - Several states have authorized local-option fuel taxes for roads, transit, and other needs.
- 

**Local-Option  
Taxes –  
Income/Payroll**

- **Alabama**
  - **Arkansas**
  - **Delaware**
  - **Georgia**
  - **Indiana**
  - **Kentucky**
  - **Maryland**
  - **Missouri**
  - **New Jersey**
  - **New York**
  - **Ohio**
  - **Oregon**
  - **Pennsylvania**
  - **Virginia**
  - **Washington**
  - Other states have income or payroll taxes available to meet local transportation needs.
- 

**Local-Option  
Taxes – Sales  
Taxes**

- **Alabama**
  - **Alaska**
  - **Arizona**
  - **Arkansas**
  - **California**
  - **Colorado**
  - **Florida**
  - **Georgia**
  - **Illinois**
  - **Iowa**
  - **Kansas**
  - **Louisiana**
  - **Minnesota**
  - **Missouri**
  - **Montana**
  - **Nebraska**
  - **Nevada**
  - **New Jersey**
  - **New Mexico**
  - **New York**
  - **North Carolina**
  - **North Dakota**
  - **Ohio**
  - **Oklahoma**
  - **Pennsylvania**
  - **South Carolina**
  - **South Dakota**
  - **Tennessee**
  - **Texas**
  - **Utah**
  - **Vermont**
  - **Washington**
  - **Wyoming**
  - Local-option sales taxes are available in many states.
- 

**Think like a  
Taxpayer**

- **What roads will be fixed?**
- **Will the money be use efficiently?**
- **Who should be held accountable if things do not improve?**
- **How will those paying the taxes benefit?**

*Continued on Next Page*

- Many are trying to figure out who to complain to when the roads they drive on contains too many potholes, when orange barrels inconvenience their commute, or when snow is not cleared from the streets.
- Good government is transparent.
- If taxpayers cannot understand how things are organized and how more taxes will benefit them, they're not likely to give them voter support.
- Taxpayers should be able to understand the highway system to hold the proper agency accountable when things aren't right.
- With Michigan's highway system you often need a sign on the side of the road telling you who are responsible.
- What's a county road is one place can be a city or state road in another place.
- To further confuse matters for taxpayers, cities have jurisdiction over roads, but charter townships, that look and act like cities and are often mistaken for cities, play no role.
- Just try to explain the formula distributing funding in the Michigan Transportation Fund to the average taxpayer.
- Because of the confusing formula it's often difficult to get agreement among highway interests for efforts to increase taxes.

---

**Reshape  
Highway  
Governance**

- **MDOT**
  - **Interstates and roads serving mobility**
  - **State gas tax and registration fees**
  - **Adjust tax rates to reflect state burden**
- **County road commissions**
  - **Regional taxes/no local access roads**
  - **New regional taxes**
  - **Fund regional roads and transit**
- **Municipalities-Cities, Villages & Townships**
  - **Only for local access roads**
  - **Fund with municipal taxes**
- After jurisdictional control is addressed, a needs assessment and prioritization is performed to clearly spell out which roads will be fixed when, than a funding system can be created to serve the new system.
- Creation of system should begin by ending the dependence of local units on state funding for care of local roads.
- Each level of government should have a tax structure that supports the roads for which they are responsible.
- State taxes should be used to fund MDOT's roads and bridges.
- The proper tax rates would be determined based on how many roads are assigned to the state's control after reform of jurisdictional control.
- Considering that the current motor fuel taxes and registration fees pay for the state and locals too, I would suggest that the state tax rate could probably be cut.

*Continued on Next Page*

- New regional taxes should be authorized for care of regional roads – those assigned to county road commissions.
  - Other states use local-option gas taxes, sales taxes, or income and payroll taxes.
  - Revenues from such a tax could be used for other infrastructure needs such as water and sewer lines.
  - They should most certainly be used to support transit services.
  - By giving collectors and arterials to county road commissions, you have lessened the load for municipalities.
  - Depending on the cost to support the roads they are left with, taxes already levied by municipalities could be used, or municipalities could gain taxing authority for their infrastructure needs.
- 

**Citizens of  
Research  
Council of  
Michigan**

- **[www.crcmich.org](http://www.crcmich.org)**
  - **“Insanity is doing things you’ve always done and expecting different results.” – Albert Einstein**
  - You’ve heard today several ideas for raising more money through the levy of new taxes, getting more money from Washington, and so on.
  - I would suggest that just getting more money will not fix Michigan’s highway system. The organization of the system and methods of getting funding to the roads is in need of repair.
  - What I am suggesting is the creation of a new way of doing business in Michigan.
- 

**Q&A**

- Q Sensitive to the donor state issue on the national level; population areas supporting that. What would be your suggestion on how to account for need for the donor system; what would be your proposal?
- A I would not totally take the state out of local government, especially with as much traffic that occurs in southeast Michigan. Those needs can be better met with regional taxes, raised and stay locally, reserved gas tax money to meet these local needs.
- Q Discuss how you need a champion on how to carry the cause forward; anyone you see as a champion in Michigan?
- A Not yet, however, with the looming financial crisis of local government one might be created by local groups. Driven by local government meeting the needs of DARVA and meeting local sewer needs and from property taxes to a different funding structure. Get services away from municipal government and regionalize more services. Take burden away from more financially stressed units and spread the cost over a broader region.

- Q Transit is a local/regional service and we know that Michigan is just average with public transit; however, the state gets benefits with its road system for pulling vehicles off its roads, what if the state got out of the business of transit?
- A I wouldn't take the state completely out – but 50% or more is a real problem. Other states' transit is as good as it gets, such as New York City; however, their system doesn't have the dependence we have in Michigan. Keep as a role of the state, but need to get it back into proportion.
-